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The Newspaper of the Non-Profit World

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STEVE GRAYSON, FOR THE CHRONICLE

The Rev. Cecil L. Murray, of the First AME Church in Los Angeles: "We must make sure that different people are talking to each other . . . so that we don't just get the voices of the sophisticated power brokers."

AFTER THE RIOTS: SEEKING WAYS TO AID CITIES

Following Los Angeles upheaval, non-profits and grant makers grope for answers to urban blight; local groups are called vital

By JENNIFER MOORE

LOS ANGELES

THE RIOTS, LOOTING, AND FIRES that ravaged this city have forced many people in philanthropy to ask new questions about how to alleviate urban poverty across the country.

Scores of charities, foundations, and corporations throughout the United States scrambled to provide victims of the riots with groceries, shelter, legal representation, financial aid, psychological counseling, and many other services. (See story on Page 8.) But many non-profit leaders were turning their attention to the long-term challenges that the crisis presents both to government and to philanthropy.

"People need to realize that this is about the disenfranchised many, not just the lawless few," said Paul E. Lee, director of litigation for the Legal Aid Foundation of Los Angeles. He said the rioting that took place after the acquittal of four white police officers in the beating of a black man, Rodney King, illuminated "the different fundamental issues that we as non-profits deal with every day—exhibited to an extreme."

For many, the violence that caused nearly $1-billion in damage and destroyed much of South-Central, one of the city's poorest districts, has served as an all-too-painful reminder that the problems that many foundations and charities tried to solve after the Watts riots here in 1965 persist and may have even grown worse. The efforts to rebuild Los Angeles will be closely watched by the many grant makers and non-profits that are eagerly looking for clues to what types of activities most effectively heal urban woes.

'We Need to Seize the Moment'

Said Dennis A. Collins, president of the James Irvine Foundation in San Francisco: "I think *this* will serve as a watershed or a real sea change for non-profits and foundations to focus their attention" on urban problems.

"I don't want to sound opportunistic, but we need to sound opportunistic, *in* the best sense of the word," he added. "We need to seize the moment and make sure these issues are included in the national dialogue."

Some cautioned that philanthropy alone could not be expected to solve the profound problems facing the nation's cities. They said non-profits could do the most good by lobbying to persuade the federal government to do more.

Said Pablo Eisenberg, president of the Center for Community Change in Washington: "Only the feder-

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GREGG RUMMEL, FOR THE CHRONICLE

More Enforcement by the IRS
In a stepped-up enforcement effort directed at charities, the Internal Revenue Service is trying to be more efficient, says the IRS's Marc Owens (*above*). Story on Page 25.

Getting Free Advice
In hard times, many charities are looking for free or low-cost help. A guide to some sources appears in an expanded Ideas section beginning on Page 22.

A complete guide to this issue appears on Page 3.

WHAT'S IN THIS ISSUE

A guide for the busy reader — Volume IV, Number 15

About Fund Raising

19 Private secondary schools are planning big capital campaigns, including at least two that seek to raise more than $100-million each.

19 Donations to colleges and universities rose 4 per cent last year, not enough to keep pace with inflation.

21 Yale University has announced a $1.5-billion capital campaign.

9 Spelman College has received $37-million, the largest gift ever made to a black college.

9 The Sierra Club Foundation is embroiled in a dispute over a donation it received more than two decades ago.

21 Most rates that charities pay on gift annuities should not change, says the group that makes recommendations on the issue.

22 Ideas: letting donors check off why they give; raising money with singing telegrams and a giant cake.

33 The number of taxpayers claiming deductions for charitable gifts continues to fall, says the Internal Revenue Service, but the amount of donations deducted is going up (Tax Watch).

12 Recent gifts to non-profit institutions and organizations.

20 Interest rates for planned gifts, issued by the Internal Revenue Service.

About Non-Profits

1 In the wake of the Los Angeles riots, non-profit leaders are looking at the long-term challenges in wiping out urban poverty. Among the remedies they cite: strengthening existing social-service organizations, building small businesses, creating jobs, and remembering the importance of churches.

7 A non-profit that provides a wide range of services to the Watts neighborhood in Los Angeles saw its most visible facility destroyed by rioters. But the group's leaders say they aren't bitter and will rebuild.

10 The leader of a women's charity in Philadelphia has won that state's Democratic Senate nomination and hopes to bring her experience in non-profits to Capitol Hill.

18 The press pays too little attention to philanthropy and non-profits, said participants at a forum on the issue.

25 The Internal Revenue Service is stepping up its enforcement of laws governing non-profits. At the same time, the IRS is trying to work with charities to help them voluntarily comply with the tax code.

33 An IRS ruling on the unrelated-business income tax may arouse new concerns about corporate sponsorships of non-profit activities (Tax Watch).

28 United Way of America says it is collecting dues again from many of the local organizations that had withheld them because of the recent controversy there.

29 William Aramony, the former United Way of America president, has responded to some of the charges made against him in a law firm's report.

28 Charities that provide work for blind and disabled people have had to lay off hundreds of workers.

27 A California judge has told a local Boy Scouts group that it must admit two atheist boys.

22 Places where charities can get free or low-cost advice and assistance are listed in a new column: The Basics.

33 The Treasury Department has published a list of rules affecting non-profits that it plans to propose or complete in the months ahead.

33 Reports on charities by the National Charities Information Bureau.

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A bid to take charity experience to the Senate **10**

Of Special Interest to Board Members

25 **The IRS, as part of a stepped-up enforcement effort directed at charities, is looking at how boards set salaries for top executives.**

29 **Board members do such a bad job overseeing charities that the non-profit world should create a new watchdog organization, argues the *Washington Monthly* (Press Clippings).**

35 **Many non-profits would benefit from the same kind of board-room revolt that took place at General Motors, argues columnist Waldemar A. Nielsen.**

About Grant Makers

1 Many corporations and foundations responded to the Los Angeles riots by providing immediate relief for the victims. Now they are looking at what they can do in the long run to alleviate the problems that contributed to the riots.

9 The Annenberg Foundation has pledged $24.6-million to the University of Southern California.

9 The Freedom Forum foundation plans to spend $12-million to create a museum about newspapers at its headquarters.

9 The Z. Smith Reynolds Foundation has issued a report on investments that aim to deal with social problems.

13 Recent grants by foundations, corporations, and other grant makers.

16 Summaries of annual reports from the Bush, Charles A. Dana, Morris Goldseker, and Metropolitan Atlanta Community Foundations and the Chicago Community Trust.

About Volunteers

12 Points of Light 756 to 768 were named by the Bush Administration.

Also in This Issue

34 **Opinion:** David Johnston on what philanthropy should do after the Los Angeles riots, and Waldemar A. Nielsen on the need for General Motors–style revolts in charities' board rooms.

24 **Press Clippings:** *The Washington Monthly* on why charities' boards are ineffective, *Money* on high-salaried non-profit executives, and *Association Management*'s list of the largest associations.

32 **Books:** Summary of recent books on philanthropy, fund raising, and non-profit management.

34 **Letters** on giving money to raise money, why charities join United Way, a United Way official's comment, diversity in the non-profit world, a philanthropic couple, and Japanese philanthropy.

32 **Awards:** Honors for people and organizations in philanthropy.

Corrections

▶ An article on the Ford Foundation (May 5) inaccurately described the parties involved in a forthcoming survey of foundation effectiveness. The survey was developed by the Foundation Project and sent to foundations on a list provided by the Foundation Center.

▶ A table on compensation of non-profit executives (March 24) contained erroneous information about Habitat for Humanity International. Millard Fuller remains its president; the $20.8-million listed as its 1990 income was for the organization's national office only.

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FUND RAISING

Trends and Ideas

Schools' $100-Million Campaigns

With their costs rising rapidly, private secondary institutions are setting unprecedented fund-raising goals

By HOLLY HALL

PRIVATE SECONDARY SCHOOLS are dramatically increasing their goals for capital campaigns.

Next week the Lawrenceville School in New Jersey will kick off a campaign for $125-million, the largest goal ever for a private secondary school. It will be only the second private school to seek $100-million or more. The first was the Hotchkiss School in Lakeville, Conn., in a campaign begun last year.

Officials at several other private schools say their institutions are in the planning stages of capital campaigns. Some, particularly at the 10 boarding schools that raise the most among private schools, hint that their drives will be in the $100-million range.

"I think other schools will begin to follow their lead," says Helen Colson, a consultant to the National Association of Independent Schools. "These schools have realized that they must build large endowments to assure their financial viability in the 21st century, so you will begin to see larger and larger goals."

Capital Campaigns at the 12 Private Schools That Raise the Most Annually

(In millions of dollars)

	Amount raised in 1989-90	Last campaign: Year	Last campaign: Amount raised	Current campaign
Phillips Exeter Academy (N.H.)	$10.2	1981	$26.0	None
St. Paul's School (N.H.)	10.0	1991	10.0	None
Phillips Academy (Mass.)	9.3	1979	52.0	None
Choate Rosemary Hall (Conn.)	9.1	1985	27.0	Being planned
Hotchkiss School (Conn.)	8.8	1967	12.3	$100-million campaign announced
McCallie School (Tenn.)	6.2	1986	13.8	$32-million campaign announced
Deerfield Academy (Mass.)	5.7	1988	37.0	Under consideration for 1997
St. Mark's School of Texas	5.4	1983	5.9	$35-million campaign announced
Taft School (Conn.)	4.8	1973	5.0	Under consideration
Middlesex School (Mass.)	4.5	1989	10.6	Being planned
St. George's School (R.I.)	4.4	1976	3.5	Being planned
Episcopal High School (Va.)	4.3	1989	21.0	None

Note: Schools in planning stages of capital campaigns not yet formally announced may have already begun to solicit contributions in "quiet phases" of their campaigns.

Record Campaign Brought in $60-Million

The Hotchkiss School's $100-million was $40-million more than the next-largest campaign, conducted by the Culver Academies in Indiana. Culver raised $60-million in a campaign that ended in 1988.

"We broke the $100-million barrier," says Kristina S. Chandler, director of development at Hotchkiss. "There was a reluctance among other schools to shoot for that kind of money until we did."

Several private-school officials said that high campaign goals reflect growing competition among their institutions for money as the recession continues, operating and maintenance costs soar, the demand for student financial aid continues to grow, and students who can afford to pay expensive tuition and other fees become harder to recruit.

"There is an element of competition in these campaigns because everyone is trying to maintain their institution's edge in admissions and quality of educational programs," says Mary Kay Karzas, associate director of development at Culver, which is expected to launch another capital campaign within the next two years. Consultants who work with private schools predict that Culver's new campaign will be in the $100-million range, although school officials decline to say.

"You can't decide to raise this kind of money just

Continued on Page 20

Gifts to Higher Education Rose 4% Last Year, but Did Not Keep Up With Inflation

By ELIZABETH GREENE

DONATIONS TO COLLEGES and universities rose 4 per cent last year—marking only the second time in 12 years that giving to higher education has failed to keep pace with inflation, says a report to be issued next month by the Council for Aid to Education.

Gifts totaled $10.2-billion for the academic year ending June 30, 1991, up from $9.8-billion in 1990. They fell by 1 per cent when inflation was taken into account.

David R. Morgan, director of research for the council, which encourages businesses and individuals to give to education, said the numbers were not surprising given last year's economic climate.

"The overall state of the economy, the recession, corporate profits being down, the stock market not doing well during the most important period of giving [the last half of 1990], it's all reflected," he said.

Said Glenn P. Strehle, vice-president and treasurer of the Massachusetts Institute of Technology: "The magnitude of those events is so large that it would be difficult to read anything else into the decline. It's remarkable that it went down by only 1 per cent."

The council's Mr. Morgan said he was optimistic that giving to higher education would improve when the recession wanes. "If the signs of an improving economy are borne out, I would expect to see voluntary support continuing to climb, maybe at a faster pace," he said.

The failure to keep pace with inflation was the most significant setback to giving for higher education since the 1987-88 academic year. That year giving fell 3.5 per cent in current dollars and 7.5 per cent when adjusted for inflation. Experts attributed that drop, which came after 13 years of steady growth, to the impact of the Tax Reform Act of 1986. Changes in the deductibility of contributions prompted many people to make their gifts before the law took effect in 1987.

Alumni Donations Not as Strong

The report on 1991 giving was based on a survey of 1,059 higher-education institutions that was conducted by the council and co-sponsored by the Council for Advancement and Support of Education and the National Association of Independent Schools. Among the 919 institutions that participated in the study last year and the year before, 525 reported increases in donations while 394 experienced decreases.

In current dollars, college and university alumni gave their alma maters 6 per cent more in 1991 than in 1990, compared to an 11-per-cent increase the previous year. Alumni giving accounted for 26 per cent of total gifts to higher education.

Donations by individuals other than alumni rose by 4 per cent, compared to a 7.5-per-cent increase the prior year, accounting for 23 per cent of total giving. Foundations also increased their support, by 6 per cent, after a 10-per-cent increase in 1990, and corporations increased their giving by 3 per cent, as compared to 11 per cent the year before.

Gifts from religious groups, which had risen by 1 per cent in 1990, were flat in 1991, and other organizations such as clubs and unions increased their giving by just 1 per cent, following an 11-per-cent rise in 1990.

All increases in giving were for efforts to improve current campus operations. Gifts for that purpose rose about 7 per cent in current dollars, compared to 8 per cent in 1990. Support for capital purposes, such as buildings and equipment, endowment, and debt retirement, remained fairly flat, reflecting in part the weak stock market, the report said.

2-Year Colleges Get Tiny Share of Gifts

Four-year institutions received the lion's share of donations to higher education, an estimated 97 per cent or $9.89-billion. Two-year institutions, by comparison, received $310-million.

The four-year institutions received $1,169 per student, a 2-per-cent decrease when adjusted for inflation. Private donations accounted for 7.7 per cent of the institutions' budgets.

Two-year colleges received $60 per student, a 3-per-cent inflation-adjusted decline. Private donations made up 1.5 per cent of institutional expenditures.

University fund-raising officials say they are bringing in more money now than they were at this point last

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In Fund Drives, Private Schools Aim for Unprecedented Goals

Continued from Page 19

because your competitors are," says Ms. Karzas. "You have to be able to justify the magnitude of the goal in terms of your needs. At this level, you have a very savvy group of constituents who would be suspicious of fund raising just for the sake of fund raising. It comes down to accountability and integrity within a campaign."

But she adds: "If you see your colleagues going for significant goals, and if you have the potential, you can use their campaigns as leverage with your own trustees to say that the ground has been broken, and yes, we can do this, too."

Some private-school officials say that the higher campaign goals reflect similar dramatic jumps in the goals set by private universities, several of which have reached the billion-dollar mark. (See story on Page 21.)

'Trickle Down' From Colleges

"There is a sort of filtering down from large colleges and universities, a trickle down to small colleges and then to independent schools," says Ms. Karzas.

A few private secondary schools, she notes, "are raising more than small colleges out there. The perception is, for those that aren't involved, that this kind of fund raising isn't happening at independent schools, but it is."

Some private-school officials see their institutions competing with elite colleges for big donations.

"The alums of many prestigious prep schools also attended Ivy League institutions, which have announced billion-dollar campaigns," says Harvey D. Morse, executive director of alumni affairs and development at Choate Rosemary Hall in Wallingford, Conn. "There's a sense that donors will give to the institution in a campaign, and independent schools don't want to pick up the crumbs."

Choate is now in the early stages of planning a capital campaign. While Mr. Morse declines to say how much money his school will attempt to raise, other school officials speculate that Choate will set a goal of $100-million or more.

Some private-school officials acknowledge that competition among their institutions is a factor in the growth of capital-campaign goals, but others deny it.

"Colleges and universities have this 'I'll see yours and raise you' mindset," says Jim Marksbury, alumni secretary at the Deerfield Academy in Massachusetts, "but I don't think that attitude has an effect on any campaign goal we would establish at Deerfield."

Regardless of whether they view competition as a factor in setting goals, private-school officials unanimously defend their $100-million-plus wish lists as reflecting legitimate needs at their institutions.

At Lawrenceville, for example, tuition is $17,500 per year, but it costs the school about $30,000 to educate each student. "That huge difference is made up from income from endowment and increasingly generous annual giving," said James T. Adams, assistant headmaster for external relations.

Stacey Cramp contributed to this article.

Giving to Colleges and Universities Fails to Keep Pace With Inflation

Continued from Page 19

year and are optimistic that this year's numbers will be higher.

Paul S. Blodgett, associate vice-president for development at the University of Southern California, which saw a 25-per-cent drop in donations last year, to a total of $94.3-million, said the strengthened stock market has resulted in increased giving by individuals. In addition, the university's planned-giving program, which offers donors financial and tax benefits in return for their gifts, has grown this year, he says, putting the institution $7.25-million ahead of last year's pace.

Donors Not Abandoning Colleges

Mr. Blodgett said that he had seen no indication that donors are shifting their priorities away from higher education. "We haven't seen any trend that would suggest movement away from us," he said. While donors are becoming more and more interested in elementary and secondary schools, he said, they are not planning to abandon higher education.

Next month the council plans to release survey results for giving to private elementary and secondary schools. The complete report, "Voluntary Support of Education, 1991," may be obtained in late June from the council at 51 Madison Avenue, Suite 2200, New York 10010. The cost of the two-volume report is $50 prepaid, or $35 for survey participants.

Interest Rates for Planned Gifts

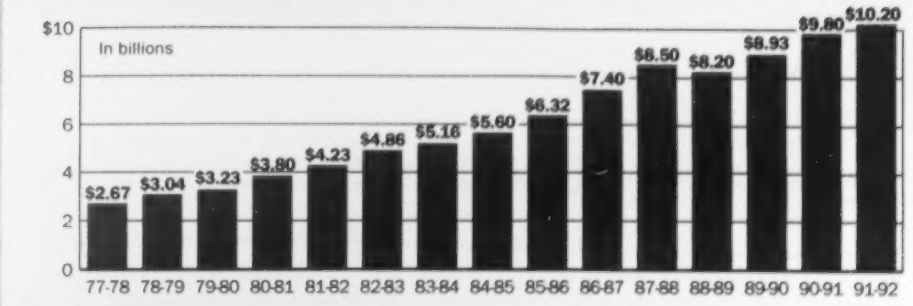
Following are the interest rates, provided by the Internal Revenue Service, for computing charitable deductions for charitable remainder trusts, gift annuities, charitable lead trusts, and some other deferred gifts.

June	9.6%
July	9.6
August	9.8
September	9.6
October	9.0
November	8.6
December	8.6
January 1992	8.2
February	7.6
March	8.0
April	8.4
May	8.6

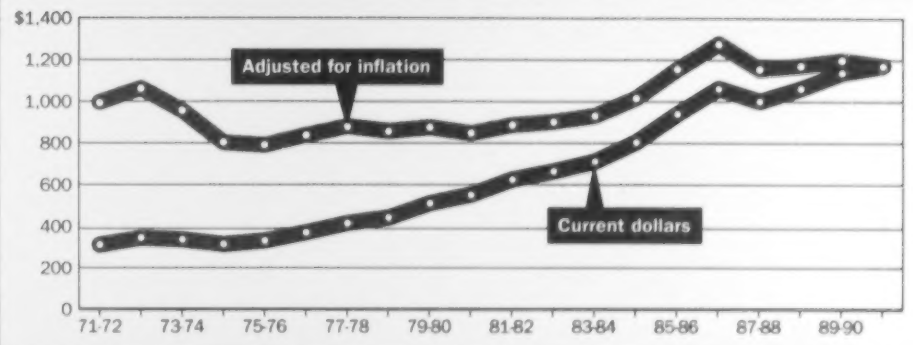
SOURCE: PG Calc Inc.

Giving to Colleges and Universities

15-Year Trend in Total Giving



Donations per Student at 4-Year Colleges



Sources and Purposes of Support

	1986	1990	1991	1-year change	5-year change
Sources of support:					
Alumni	$1,825,000,000	$2,540,000,000	$2,680,000,000	+6%	+47%
Non-alumni individuals	1,781,000,000	2,230,000,000	2,310,000,000	+4	+30
Corporations	1,702,000,000	2,170,000,000	2,230,000,000	+3	+31
Foundations	1,363,000,000	1,920,000,000	2,030,000,000	+6	+49
Religious organizations	211,000,000	240,000,000	240,000,000	0	+14
Other organizations	518,000,000	700,000,000	710,000,000	+1	+37
Purposes of support:					
Current operations	4,022,000,000	5,440,000,000	5,830,000,000	+7	+45
Capital purposes	3,378,000,000	4,360,000,000	4,370,000,000	0	+29
Grand total	**$7,400,000,000**	**$9,800,000,000**	**$10,200,000,000**	**+4%**	**+38%**

Top 25 in Voluntary Support

Harvard University	$195,582,616
Stanford University	180,922,249
Cornell University	177,075,032
University of Pennsylvania	143,384,123
Yale University	132,416,904
University of Wisconsin at Madison	128,394,787
Columbia University	128,241,788
University of California at Berkeley	117,656,562
Duke University	113,693,144
Massachusetts Institute of Technology	110,307,644
University of Minnesota	109,131,731
University of Washington	102,831,966
Johns Hopkins University	100,437,183
University of Michigan	94,789,039
University of Southern California	94,303,629
Indiana University	90,901,034
University of Illinois	89,589,324
Princeton University	88,288,317
New York University	87,555,158
University of Chicago	82,185,081
Ohio State University	74,295,747
California Institute of Technology	73,155,633
Northwestern University	70,849,657
University of Texas at Austin	68,055,605
Samford University	66,413,849

Top 25 in Corporate Support

Massachusetts Institute of Technology	$55,071,078
University of California at Berkeley	49,292,954
Cornell University	44,012,195
Stanford University	42,341,527
Duke University	42,273,676
University of Minnesota	38,654,040
University of Washington	37,464,966
University of Wisconsin at Madison	34,700,466
Michigan State University	29,708,757
University of Illinois	28,187,100
Ohio State University	27,728,775
Carnegie Mellon University	24,901,472
University of Florida	23,828,162
University of Utah	23,608,375
Harvard University	23,552,965
University of Southern California	21,403,595
North Carolina State University	21,360,823
Pennsylvania State University	21,078,627
University of Pennsylvania	20,273,166
Iowa State University	20,000,689
Indiana University	19,612,471
University of Michigan	18,389,681
University of Arizona	17,969,650
Columbia University	17,885,726
Northwestern University	16,293,430

SOURCE: Council for Aid to Education

Rates on Most Gift Annuities Should Not Drop, Panel Says

By GRANT WILLIAMS

DALLAS

Despite sagging interest rates on investments, charities should continue to offer the same payout rates to most people who make donations through gift-annuity plans, says the 21st Conference on Gift Annuities.

The conference was held here by the Committee on Gift Annuities, which is made up of 25 representatives of charities. The conference is held every three years to consider changes in its recommended payout rates. Charities are not required to abide by the suggested rates, but most do.

Gift annuities are a form of planned giving, allowing donors to make a contribution of cash, securities, property or other assets, and, in exchange, receive a fixed payment for life. Immediate gift annuities allow donors to receive fixed payments beginning right away. Deferred gift annuities allow donors to receive fixed payments that start one year or later from the time of the gifts. Many of those payouts are structured to begin after donors' retirements.

The key changes recommended by the conference:

► Charities should reduce the rates they pay on immediate gift annuities for people who are 32 years old or under and 82 and above.

► Non-profit organizations should increase by one percentage point the estimated rate of interest on investments that they use to calculate payout rates for people with deferred-gift annuities. That change means that non-profit groups generally will pay out more to donors.

The assumption behind payout-rate calculations is that charities will eventually receive at least 50 per cent of the value of the gift. Most charities receive much more—as much as 90 per cent.

The conference's recommendations apply to payout rates for annuities obtained after June 30, 1992.

Annuities pay a fixed sum each year amounting to a percentage of the total gift, based on age. The older the donor, the higher the annual payout, because the person is not expected to live as long as someone younger.

Since the value of the gift exceeds the value of the annuity payouts guaranteed by the charity, the donor can take a charitable-gift tax deduction for the difference.

Michael Mudry, the committee's actuary, told the conference that many fund raisers expected immediate-gift-annuity payout rates would have to be reduced because of lower interest rates paid to holders of bonds and of other investments during the recession.

Charities usually place all of a donor's gift in long-term bonds or in other investments, and make payouts from the investments.

Conservative Projections

The good news, said Mr. Mudry, is that the lower interest rates on investments still generally exceed a 6.5-per-cent earnings assumption upon which the conference has based its suggested payout rates.

Thus, the conference was able to recommend no change in the immediate gift annuity rate for most donors—those who are 33 to 81. For those donors, the payout rate will continue to range from 6 per cent for those 33-year-olds to 9.9 per cent for 81-year-olds.

"Despite what appear to be high payout rates in the context of our current economic situation, these annuities are still based on strong, conservative actuarial footings," said Tal Roberts, chairman of the Committee on Gift Annuities and executive vice-president of the Baptist Foundation of Texas.

The conference did change suggested payout rates for younger and older donors.

Under the conference's current recommendation, donors 35 and under receive payouts of 6 per cent. The conference's new suggestion, to take effect July 1, lowers the rate for those under 33 by varying amounts. The lowest payout is 5.5 per cent for donors 20 years old and under.

For example, a 20-year-old woman who obtained a $10,000 charitable annuity before July 1 would receive 6 per cent of the total gift, or $600, each year for the rest of her life. The same gift made on July 1 or later, however, would result in a payout of 5.5 per cent or $550.

Mr. Mudry said charities previously had little concern about paying the same annuity rate at all ages below 35 because so few young people took out gift annuities.

But a recent increase in the number of annuities obtained by people under 35 "has changed the picture," said Mr. Mudry.

The suggested payout reduction also takes into account that interest rates are likely to change during the lifetimes of younger donors, Mr. Mudry added.

The conference also recommended lowering some immediate gift annuity rates for older people. The rates now range from 10.2 per cent for donors 82 years old to 14 per cent for those 90 and above. The rates drop to 10.1 per cent for 82-year-olds, and decline to 12 per cent for those 90 and above.

As people live longer, "many organizations feel uncomfortable in issuing immediate gift annuities at these older ages at what they consider to be high annuity rates," said Mr. Mudry.

Fears Over Value of Gifts

Many charity officials worry that at current levels, payout rates could quickly use up the amount paid by donors for gift annuities, wiping out the charitable donation, he said.

Recommended rates are maximums that should not be exceeded by charities, Mr. Mudry said. "Otherwise," he added, "there is a risk that payout rates would increase to the point that the main purpose of gift annuities, which is to obtain residuums for the use of the charitable organization, could be jeopardized."

Mr. Roberts stressed that the rates adopted by the conference are recommended maximum payouts. "You can adopt them without any fear of not ending up with a gift," he said. He added that charities uncomfortable with the rates are free to "scale them back to suit their own comfort level."

The conference also recommended that immediate gift annuity rates for two people—usually a wife and a husband—remain unchanged for most ages. Immediate gift annuity rates for two people are more complicated because they reflect the actuarial data for both individuals.

New Immediate Gift Annuity Rates (Single Life)

Changed			Unchanged						Changed		
Age	Old rate	New rate	Age	Rate	Age	Rate	Age	Rate	Age	Old rate	New rate
20 and under	6.0%	5.5%	33	6.0%	50	6.5%	66	7.4%	82	10.2%	10.1%
21	6.0	5.6	34	6.0	51	6.6	67	7.5	83	10.6	10.4
22	6.0	5.6	35	6.0	52	6.6	68	7.6	84	10.9	10.6
23	6.0	5.6	36	6.1	53	6.6	69	7.7	85	11.4	10.9
24	6.0	5.7	37	6.1	54	6.7	70	7.8	86	11.8	11.1
25	6.0	5.7	38	6.1	55	6.7	71	7.9	87	12.3	11.4
26	6.0	5.7	39	6.2	56	6.8	72	8.0	88	12.8	11.6
27	6.0	5.8	40	6.2	57	6.8	73	8.2	89	13.4	11.8
28	6.0	5.8	41	6.2	58	6.9	74	8.3	90 and over	14.0	12.0
29	6.0	5.8	42	6.3	59	6.9	75	8.5			
30	6.0	5.9	43	6.3	60	7.0	76	8.7			
31	6.0	5.9	44	6.3	61	7.0	77	8.9			
32	6.0	5.9	45	6.4	62	7.1	78	9.1			
			46	6.4	63	7.1	79	9.4			
			47	6.5	64	7.2	80	9.6			
			48	6.5	65	7.3	81	9.9			
			49	6.5							

SOURCE: Conference on Gift Annuities

Yale U. Announces $1.5-Billion Drive, Largest Ever by a Non-Profit

By VINCE STEHLE

Yale University has announced a five-year, $1.5-billion capital campaign, the most ambitious fund-raising drive yet to be announced by a non-profit. So far, Yale has received $571.2-million in pledges and gifts, representing 38 per cent of its goal.

Among the gifts pledged so far, the largest include $85-million in contributions from the Bass family of Texas, and $50-million in art and cash from a long-time Yale supporter, Paul Mellon. Mr. Mellon's gift will include works of art and a $25-million contribution to the endowment of the Yale Center for British Art, which he established through donations that he made in 1977.

Of all the gifts pledged toward the "nucleus fund"—the name given to contributions made before the public announcement of a campaign—8 per cent were gifts of art, rare books, and other valuable property designated for Yale's collections.

The new fund-raising drive at Yale is far larger than its last campaign, a five-year, $370-million effort that was completed in 1978. With the current campaign, Yale joins a small group of institutions that are in the midst of campaigns for $1-billion or more. Among them: Cornell University, which has raised $647-million toward a goal of $1.25-billion, Columbia University, which has raised $576.7-million toward a goal of $1.15-billion, and the University of Pennsylvania, which has raised $787.5-million toward a goal of $1-billion. The United Jewish Appeal–Federation of Jewish Philanthropies of New York has raised $703.5-million in a campaign for $1.2-billion, the largest fund-raising drive outside higher education. In February, Stanford University ended a capital campaign after raising $1.25-billion.

Harvard University is planning a campaign for at least $2-billion, but university officials say that the drive has been delayed until the 1993-94 school year in order to give the university's new president, Neil L. Rudenstine, an opportunity to assess the institution's needs.

The $85-million in contributions from the Bass family includes gifts made over the last two years, including $20-million from Perry R. Bass for the Center for Molecular and Structural Biology, $20-million from Edward P. Bass to establish the Yale Institute of Biospheric Studies, $20-million from Sid R. Bass to strengthen teaching and research in the humanities, and $20-million from Lee M. Bass to help pay for scholarship and teaching in the area of Western civilization.

Proceeds from the campaign are to be split evenly into three categories, with $500-million to endow student scholarships and faculty positions, $500-million for academic programs, and $500-million for building repairs and construction.

The campaign total will reflect all gifts made during the next five years, including gifts to the annual fund, as well as large gifts received during the last two years. Bequests and other deferred gifts will not be credited at their full value because the university doesn't know when it will receive such gifts.

Status of Billion-Dollar Campaigns

	Started or announced	To conclude	Goal	Amount raised
Yale U. (Conn.)	May 1992	1997	$1,500,000,000	$571,200,000
Cornell U. (N.Y.)	Oct. 1990	Dec. 1995	1,250,000,000	647,000,000
United Jewish Appeal–Federation of Jewish Philanthropies of New York City	Oct. 1989	Dec. 1994	1,200,000,000	703,500,000
Columbia U. (N.Y.)	Sept. 1990	Dec. 1995	1,150,000,000	576,700,000
Stanford U. (Cal.)*	Feb. 1987	Feb. 1992	1,100,000,000	1,255,000,000
New York U.	Sept. 1984	Jan. 2000	1,000,000,000	722,300,000
U. of Pennsylvania	Oct. 1989	Oct. 1994	1,000,000,000	787,500,000

* Campaign completed

MANAGING

Governance and Regulation

GREGG RUMMEL, FOR THE CHRONICLE

Marc Owens, director of the IRS's Exempt Organizations Technical Division: "A vast majority of exempt organizations certainly want to comply with the tax law if they could just figure out what it is. People want to know where the service stands."

IRS Steps Up Enforcement of Laws on Charities

Faced with a boom in non-profits, agency plans tougher audits and more education efforts; some see barriers to changes

By GRANT WILLIAMS

WASHINGTON

THE INTERNAL REVENUE SERVICE is aggressively stepping up its enforcement of tax laws governing non-profits.

Faced with the challenge of keeping track of a growing number of charities, the IRS has changed the way it audits them. Instead of auditing a large number of small organizations, the service is conducting fewer but more-focused audits of non-profits of all sizes. The goal: to better pinpoint violations of federal law.

The IRS is looking at a wide range of issues, including executive compensation, fund raising, corporate sponsorships, employment policies, political activity, for-profit subsidiaries, and the unrelated-business income tax.

At the same time, the IRS is increasing its efforts to educate non-profits about tax laws and to get feedback from charities. It is also trying to simplify some of its forms so that charities will better understand what information they are supposed to provide.

Peter K. Scott, former Acting Chief Counsel of the revenue service, says that at times in the past, "the term 'non-profit enforcement' was essentially an oxymoron—no such thing really existed for the most part."

Mr. Scott, who now works in the Washington office of the accounting firm Coopers & Lybrand, now expects the agency "to find a few people who are significantly over the line and nail their hides up on the side of the barn for everybody else to see."

Officials at the IRS take a more conciliatory tone. The agency wants to cooperate with charities and make it easier for them to voluntarily comply with tax laws, says John E. Burke, the Assistant Commissioner of Employee Plans and Exempt Organizations.

"We want to offer opportunities for exempt organizations to disengage from those activities that could jeopardize their exempt status," says Mr. Burke.

The revenue service's change in its approach to auditing is likely to cause some charity officials to shudder.

"Although the IRS's resources for conducting audits are not great, organizations that are selected for audit can expect to see much tougher, more careful, more thoughtful audits than has been the case in the past," says Celia Roady, a Washington lawyer.

Skepticism About Crack Down

While many observers of the revenue service, including former officials of the agency, agree that the IRS has been vigorous of late, some question whether the agency has enough money, staff, and legal clout to keep non-profits in line. (See story on Page 26.) Others are skeptical about the effectiveness of the IRS's education effort because the service in recent years has published fewer official policy statements designed to show non-profits how to follow tax laws.

Sheldon S. Cohen, commissioner of the revenue service from 1965 to 1969, says the IRS's new auditing

Continued on Page 26

IRS Steps Up Enforcement of Laws Governing Non-Profits

Continued from Page 25

approach, although a real change in tactics, could have been predicted.

"The IRS's emphasis on non-profits comes and goes as the behavior of charities changes," says Mr. Cohen.

"Organizations, whether they be charities or corporations, tend to slip over time; even the good guys are pushed competitively to do marginal things. That's when the IRS tightens up, everybody behaves, a little time goes by, some new people introduce a new bad practice, charities slide off, and the revenue service tightens up again.

"It's in waves. It comes and it goes."

Growing Number of Charities

Mr. Burke, the IRS Assistant Commissioner, says the agency's new direction stems in part from its difficulty in keeping up with the increasingly complex nature of charities—such as those with for-profit subsidiaries—and with the growth in the number of non-profits.

The number of charities (organizations that are tax exempt under Section 501(c)(3) of the Internal Revenue Code) increased by 25 per cent from 1986 to 1990, to 489,882; the number of exempt organizations of all kinds exceeds one million.

That increase, and the IRS's ability to cope with it, has worried the Oversight Subcommittee of the House Committee on Ways and Means, which keeps an eye on revenue service activities.

The panel "has been concerned for some time about staffing and funding for the IRS's exempt-organizations division," says a memorandum prepared by the subcommittee's staff for Rep. J. J. Pickle, a Texas Democrat who is chairman of the panel.

"While the number of organizations increases, there has been a steady decline in staffing levels in the exempt organizations area," the memo says.

The number of employees budgeted to handle exempt organizations has declined from 470 in 1988 to 431 last year. The IRS actually has put to work more than its budgeted number of employees; it plans to have 495 this year, but that is still fewer than the 529 who were dealing with non-profits in 1989.

Mr. Burke says it is clear that the IRS will not provide its exempt-organizations operation with a significant amount of new money. "As a result," he says, "we have to change."

Adds Marc Owens, director of the agency's Exempt Organizations Technical Division: "We're trying to use our resources in more efficient, effective ways."

Areas Under Scrutiny

Non-profits may feel the heat of IRS scrutiny in a variety of areas. Among them:

Unrelated-business income tax. The agency is closely reviewing charities' returns for clues of earnings on which the tax is owed, and has issued many rulings on the subject. Because Congress has been locked in debate over whether to change UBIT laws and has not taken any action in recent years, says Mr. Scott, the IRS "has simply said, O.K., if we're not going to get legislation, we are going to try to enforce our view of what these rules do. And if Congress doesn't like it, Congress can do something about it."

Corporate sponsorships. The IRS issued a controversial ruling last year that payments from businesses to organizers of the Mobil Cotton Bowl and John Hancock Bowl football games were not charitable gifts, but unrelated-business income that the non-profit bowls received in exchange for advertising (*Technical Advice Memorandum 9147007*).

Compensation. The IRS believes unreasonable compensation of non-profit executives is a serious problem, and, when conducting audits, will check to see that charity boards have closely scrutinized compensation arrangements and made independent decisions, says Jay H. Rotz, executive assistant of the Exempt Organizations Technical Division.

The recent controversy over United Way of America appears likely to stimulate IRS interest in the compensation issue.

The IRS is reportedly preparing to conduct an audit of United Way, which has been under fire on a variety of subjects, including the compensation of its president, William Aramony, who resigned in February. As usual, IRS officials will not comment on whether a specific organization is under investigation.

Barbara S. Bromberg, a Cincinnati lawyer, says such cases "can only serve to increase the level of awareness of the issue by agents, and they will be looking for these types of cases."

She adds: "Obviously it's going to filter down to a much lower level. That is what always happens; there will be fallout."

Employment taxes. IRS officials say charities should not try to save money by improperly classifying their employees as independent contractors, who are considered self-employed individuals. When a charity classifies a worker as an independent contractor, it does not have to withhold or match employment taxes and usually avoids paying for employee benefits. In the past year, the revenue service has made several rulings on employment cases involving charities, and has reported an increase in the amount of money it has collected from charities in employment taxes and penalties for misclassified workers.

Fund raising. The IRS has been closely monitoring charities' fund-raising activities after Congress expressed concern over questionable practices that appeared to mislead donors about the deductibility of donations. Armed with a checklist of questions, revenue service agents are examining those charities for potential abuses.

In addition, the revenue service last year revoked the tax exemption of the United Cancer Council, a charity that had spent more than 90 per cent of its income on fund raising. The cancer council sued the IRS in U.S. Tax Court, claiming that as long as the organization is not engaged in fraud, it has a Constitutional right to spend as much as it wants on fund raising. The case is pending.

Political activity. The IRS has announced that it will crack down on charities that get involved in partisan political campaigns, which is prohibited by law. The government recently reached a settlement with Jimmy Swaggart Ministries, in which the organization acknowledged that it improperly got involved in the evangelist Pat Robertson's unsuccessful campaign for the Republican Presidential nomination in 1988. The non-profit organization promised not to do so again.

Hospital joint ventures. The IRS warned last year (*General Counsel Memorandum 39862*) that non-profit hospitals could place their tax exemptions in jeopardy by engaging in some kinds of joint ventures with staff doctors. Many of the ventures allow physicians to earn money from certain hospital activities, such as outpatient surgery.

The IRS says such ventures violate federal rules that prohibit a non-profit's staff members from making money through their involvement with a charitable organization.

Tax-exempt bond financing. The IRS intends to take a closer look at nursing homes and other non-profits that use tax-exempt bonds to finance renovations or other activities. One of the revenue service's goals is to stop for-profit businesses that are improperly poised to gain from the arrangements.

New Approach to Audits

Hand in hand with those areas of IRS interest is the revenue service's new approach to auditing charities.

In the mid-1960's the government audited about 7 per cent of all non-profit organization tax returns each year. Last year that figure had dropped to 3 per cent, and in 1992 the IRS will audit only about 1 per cent.

The U.S. General Accounting Office, the arm of Congress that audits government agencies, says the change should improve the service's effectiveness. "Although the current policy effectively limits the number of audits below the number that would have been done in the past, we believe that the revised strategy will lead to better audits," says a GAO report submitted to the House Oversight Subcommittee last month.

The IRS is also trying to improve the way it monitors large organizations by having each of its seven regional offices audit at least two hospitals and one university that have complex subsidiaries or legal structures, including for-profit companies, joint ventures, and partnerships.

The audits will be used to develop additional guidelines for coordinated examinations of large and small organizations. The program eventually could be expanded to include some museums, according to the IRS.

Educating Non-Profits a Key

The Oversight Subcommittee of the House Committee on Ways and Means views these audits of large charities as "a step in the right direction," says an aide to the panel. However, the aide adds, "we have some concern that the number of audits is too small. There are a lot of large organizations out there."

The IRS makes clear that educat-

IRS Is Said to Need New Ways to Penalize Charities for Illegalities

No matter how much the Internal Revenue Service works to step up its enforcement of federal laws governing charities, some experts say, the agency needs some help only Congress can provide.

Bonnie Brier, general counsel of the Children's Hospital of Philadelphia, says the IRS is hampered by the lack of an important enforcement tool: The ability to penalize a non-profit, short of revoking its exemption, for failing to comply with federal law.

"Basically, the IRS has no intermediate sanction for public charities, and that is a serious problem," Ms. Brier says.

When a law is violated, the revenue service usually tries to work out a deal with the offending organization, she says.

But if the charity won't go along, she adds, the IRS often backs off rather than pull the plug on the non-profit by revoking its exemption.

GLENN BROOKES, FOR THE CHRONICLE

Lawyer Bonnie Brier: "The IRS has no intermediate sanction for public charities, and that is a serious problem."

Many experts say the problem could affect the service's handling of the recent controversy over finances and management at United Way of America. Unless the organization is found guilty of gross mismanagement of its affairs, few observers expect the service to revoke United Way's tax exemption. However, some lawyers suggest that if the organization has indeed been lax in its management, it should be punished in some way, if for no other reason than to serve as an example to other charities.

Michael J. Graetz, Deputy Assistant Secretary of the Treasury for tax policy, last year urged the House Ways and Means Committee to consider imposing monetary penalties on non-profits that commit legal violations that are not serious enough to warrant lifting a non-profit organization's exemption.

Marc Owens, director of the IRS's Exempt Organizations Technical Division, agrees that the service needs a less-stringent way to show its disapproval of a charity's actions.

He notes that the division has been trying to work around that problem by reaching settlements with groups that are in danger of losing their tax exemption.

Settlements With Non-Profits

In a recent settlement with the Jimmy Swaggart Ministries, for example, the organization acknowledged that it had been improperly involved in the evangelist Pat Robertson's unsuccessful campaign for the 1988 Republican Presidential nomination.

The IRS plans to reach more such settlements in the future, says Mr. Owens.

He says an intermediate sanction would help non-profits obey the law because Congress and the IRS would have to identify clearly the wrongdoing that would trigger the penalty. "Organizations then would have a line they can stay away from," he says.

Adds Ms. Brier: "To me, the revolution comes in IRS enforcement when Congress gives it intermediate sanctions—particularly those sanctions that wouldn't just apply to the organizations themselves but also to insiders, such as people on the board and officers."

—GRANT WILLIAMS

ing and working with non-profits is a key to the success of its plans.

"A vast majority of exempt organizations certainly want to comply with the tax law, if they could just figure out what it is," says Mr. Owens. "People want to know where the service stands."

Among the IRS's efforts:

Seeking feedback from non-profits. For the first time, the IRS has released proposed audit guidelines to clarify its position on an issue—in this case, corporate sponsorships of non-profit events. The guidelines, issued in January, would tell IRS agents how to determine whether UBIT should be paid on such sponsorships. The revenue service asked non-profits to mail in comments on the proposal before it is made final; it may also hold a public hearing.

"We saw the audit guidelines as an opportunity to let people know where we were going before we took off down the road," says Mr. Burke.

Mr. Owens says the IRS may issue proposed audit guidelines on other issues—including charities' political activities—and once again seek public comment.

In another attempt to get ideas from non-profits, the agency plans to hold a "town meeting" for non-profits this week to talk about current developments affecting the design, content, and format of informational tax returns. More such meetings are likely, according to Mr. Burke.

Among the things the IRS wants to discuss are redesigning Form 990-T, which is used to report unrelated-business income, to make it easier to prepare and understand, and permitting the electronic filing of Form 990 returns. That would make it easier for charities to file and would help the IRS gather data more quickly, Mr. Burke says.

Offering to negotiate. The IRS recently announced it would give non-profit hospitals with questionable joint ventures with staff doctors until September 1 to break up the arrangements and work out deals to save their exemptions. Those institutions that don't meet the deadline could end up having their tax-exempt status revoked.

"That's an important step, and I hope it is recognized as to what it represents," says Mr. Burke. "Our position is not to try to come up with a basis for revocation, but to see if we can get it straightened out."

Sending top IRS officials to meet with charity officials. Mr. Owens, James J. McGovern, the IRS's Associate Chief Counsel for Employee Benefits and Exempt Organizations, and other IRS officials have been speaking at conferences and other gatherings of non-profit officials, lawyers, and accountants, to spread the word about the revenue service's plans.

Mr. Cohen, the former IRS commissioner, says those officials' appearances "are a two-way street. The IRS people get a chance to hear if they have ideas that are crazy. Before, they were sort of purist—sitting around and talking to themselves."

Policy Statements Sought

The government's activities have not drawn rave reviews from all quarters. "Bully-pulpit appearances" by IRS officials to brief non-profits—and efforts to educate charities about what the revenue service expects—wouldn't be so necessary if the IRS regularly issued statements of policy that tax-exempt groups could rely on, says William J. Lehrfeld, a Washington lawyer.

For example, Mr. Lehrfeld notes that in past years the IRS issued many more revenue rulings to clarify its positions on non-profit matters.

Those rulings, which are generally based on actual situations the IRS comes across, are designed to provide guidance by stating the revenue service's official positions on various aspects of tax law. Revenue rulings carry more legal authority than than many other IRS pronouncements, such as private-letter rulings and technical-advice memoranda.

In the 1960's and again in the 1970's, the IRS issued more than 100 revenue rulings that directly affected charities.

In the 1980's, however, the number of rulings dropped to 22. The 1990's have yet to see a single revenue ruling on charity issues.

Mr. Lehrfeld says the IRS is stymied in its attempts to issue rulings because the Treasury Department, which must approve them, "is inert."

"Treasury historically has looked down its nose on the whole exempt-organization enforcement area, and does not devote much energy to working with the IRS on the problems that the service has," says Mr. Lehrfeld, who worked for the IRS's exempt-organizations branch from 1960 to 1966.

The IRS's proposals on corporate sponsorships apparently were issued as audit guidelines—and not as a revenue ruling—to circumvent the Treasury Department, which does not have to approve guidelines, Mr. Lehrfeld adds.

Mr. Owens says the IRS and the Treasury Department have to set priorities. "The first priority goes to those positions that impact the most people and organizations and have the biggest impact on the United States Treasury," he says. "That usually does not include exempt organizations."

Mr. Owens says the process of publishing a revenue ruling can take two to three years, with a final product that "tends to be narrow" in focus.

Revised audit guidelines and other IRS pronouncements may sometimes be better for non-profits, he adds. "There is a real argument that what's needed is guidance, and timely guidance," he says. "The more the better, and the quicker the better."

The IRS's plans and priorities will be closely watched by non-profits in the months ahead, says Mark Rosenman, director of the Union Institute's Center for Public Policy in Washington. The center has been working on a yearlong project to help non-profits deal with increased government regulation.

Mr. Rosenman says he has mixed feelings about the IRS's recent moves.

"Clarity always serves a positive purpose," he says. "If what the IRS is doing is attempting to be clearer—and to ground that clarity in examination of non-profits—I think that's to be applauded."

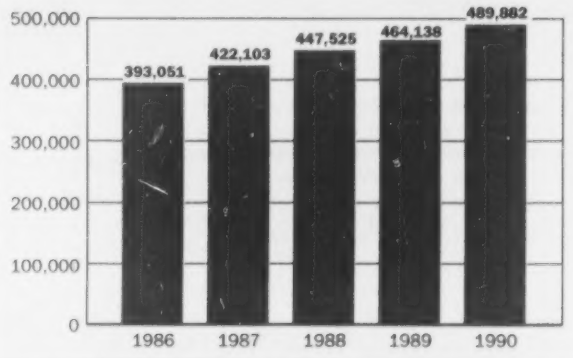
However, says Mr. Rosenman, "if there is either a reality or a perception that there is a major commitment to a higher level of investigation, it will have a chilling effect. People will tend to be more cautious, more conservative, less likely to do things that might conceivably get them in trouble.

"That means that there will be less risk-taking, less cutting-edge work."

Adds Mr. Rosenman: "Clarity is good, enforcement is good—but the IRS has to avoid operating on a scale that suggests a witch hunt."

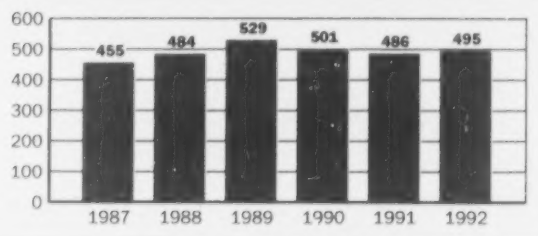
The Numbers of Charities Has Grown...

Charities Registered With the IRS



...but the Number of IRS Employees Monitoring Non-Profits Has Stayed about the Same

Employees in the IRS Exempt-Organizations Area



SOURCE: Internal Revenue Service

CHRONICLE CHART BY JOJO GRAGASIN

California Judge Rules Boy Scouts Must Admit Atheist Twins

By KRISTIN A. GOSS

A California judge has ruled that a local Boy Scouts council must admit two atheist boys who refuse to pledge their duty to God.

The decision was the first defeat for the Scouts in a recent series of cases challenging its membership policies.

In his 22-page opinion, Orange County Superior Court Judge Richard O. Frazee, Sr., handed a victory to Michael and William Randall, 10-year-old twins from Anaheim, who had charged the Scouts' Orange County Council with religious discrimination in barring them from advancing through the membership ranks until they said the religious oath.

In keeping with past opinions by other California courts, Judge Frazee ruled that the Scout council was a "business establishment" subject to the state's anti-discrimination code, known as the Unruh Civil Rights Act. But, going further than past rulings, Judge Frazee rejected the Scouts organization's claim that its right to freedom of association would be violated if its membership policies were subject to the anti-discrimination law.

"Unlike the issues of racial or sexual discrimination, which are rarely defended as being justified," Judge Frazee wrote, "religious discrimination, including discrimination against those who question the existence of God, remains openly defended by some in a way that most of our society no longer tolerates with respect to other forms of discrimination."

The Scouts organization said it would appeal the ruling.

The decision was the latest in a string of recent cases in which the Boy Scouts of America has been sued over what it terms its "values," as embodied in its standards for membership. BSA and its local units won the first two cases—one brought by Elliott and Mark Welsh, an agnostic father and son who sued in federal district court in Chicago, and the other by Timothy Curran, a gay man who sued in state court in Los Angeles. Both decisions have been appealed.

Must Pledge 'Duty to God'

In its membership oaths, the Scouts organization requires boys to promise they will do their "duty to God." The Scouts have argued that they are a private membership organization and that being forced to admit non-religious people would interfere with the group's ability to express and transmit its religious values.

Last year a California Superior Court judge upheld the Boy Scouts' First Amendment right to bar Mr. Curran because the group said he did not meet its requirement that members be "morally straight" and "clean."

In last week's ruling, however, Judge Frazee rejected those same First Amendment arguments, saying that the evidence presented during the month-long trial "showed that religious activity is never a purposeful part of any den meeting, and for that matter, any pack meeting."

"On the contrary," he wrote, "the den meetings were directed toward fun and games, and mention of religion resulted generally in a response such as 'Talk to your parents about that.' "

"When specifically asked what 'duty to God' meant, at least one young lad replied quite honestly, 'To do all your chores,' " Judge Frazee wrote, referring to a Cub Scout who had testified in the case.

Judge Frazee also rejected the Scouts' argument that Scouting groups had a right to "intimate association." He noted that the Orange County Council included more than 1,300 units and about 46,000 youth members.

The judge wrote that the Orange County Scout council qualified as a business establishment under state law because it operated a store, employed 67 people, had a $4-million budget last year, held golf tournaments and other fund-raising events, and was a "major landholder" in southern California.

"I'm speechless," said James Grafton Randall, the twins' father and lawyer, adding that the boys had been "excited and in tears" after hearing the ruling. "They want to get back in Scouts today if they can," he said.

"When specifically asked what 'duty to God' meant, at least one young lad replied quite honestly, 'To do all your chores.' "

George Davidson, the lawyer for Boy Scouts of America, said he expected to seek a court order barring the Randall boys from Scouting, pending the outcome of the appeal.

He added that if the Boy Scouts ultimately lose the case, "that would have a rather profound impact on the way the whole [non-profit] sector is organized."

"The NAACP serves blacks, there are organizations that serve battered women, there is a whole host of organizations that are designed to serve a particular subgroup of our nation," Mr. Davidson said. "One of the basic rationales of the third sector is it increases the diversity in ways that government cannot undertake."

Mr. Randall, who has reported receiving hate mail and death threats since filing the lawsuit 15 months ago, said his sons had left town immediately after the ruling for "security reasons," which he would not discuss.

In the ruling, Judge Frazee acknowledged the passions aroused by the case. Citing testimony by Scout supporters, he wrote: "Such an emotional desire to refrain from or avoid association with those who are different illustrates the absolute need for legislation such as California's Unruh Act."

TAX WATCH

Day-Care Referrals Not Enough to Qualify Group as Exempt

THE IRS has ruled that an organization operated as a clearinghouse to match groups that provide child day-care services with parents for a fee does not qualify as a charity under Section 501(c)(3) of the Internal Revenue Code (*General Counsel Memorandum 39872*).

Although the organization has educational goals, those are incidental to its commercial purposes, according to the IRS. The revenue service noted that the organization did not claim to provide referrals at below-cost rates, and did not claim to help poor parents.

IRS Says Charity Owes Income Tax on Sponsor Fee

THE INTERNAL REVENUE SERVICE has ruled that a charity that stages Appalachian mountain fairs owes unrelated-business income taxes on promotional fees it received from a corporate sponsor (*Technical Advice Memorandum 9217001*).

Organizations must pay those taxes, called UBIT, on earnings from money-making activities unrelated to their tax-exempt purposes.

The IRS said its finding stemmed from its review of an annual, two-week fund-raising event put on by the charity, which was formed primarily to promote farming.

The event includes the re-creation of an early-1900's mountain town, the display of antique farm equipment, and music concerts.

In 1986, a local soft-drink bottling company signed a three-year contract with the charity to sponsor the event. The company agreed to pay $10,000 to the charity and spend an additional $10,000 to promote the organization's activities, according to the IRS.

In return, the company obtained the exclusive right to sell its name-brand products at concession stands at the event, and to place banners throughout the grounds.

The IRS said it found "substantial" advertising in the terms of the charity's contract with the company.

"By engaging in such an extensive campaign of advertising, the [non-profit] organization is conducting competitive and promotional efforts typical of commercial endeavors," the revenue service said.

Further, the IRS said, the advertising effort "does not contribute importantly to the exempt purposes of the organization."

Accordingly, the income must be taxed, the revenue service concluded.

The IRS also ruled that the charity owed unrelated-business income tax on other revenue from its events, including campsite rentals and craft-booth commissions.

The ruling may cause concern among many non-profits that have corporate sponsorship agreements. The IRS ruled last year that payments from businesses to organizers of two football bowl games were not charitable gifts, but unrelated-business income that the bowls received in exchange for advertising.

In another decision involving UBIT, the IRS has ruled that a national high-school association must pay taxes on a variety of its revenues, including those stemming from magazine advertising (*Technical Advice Memorandum 9211004*).

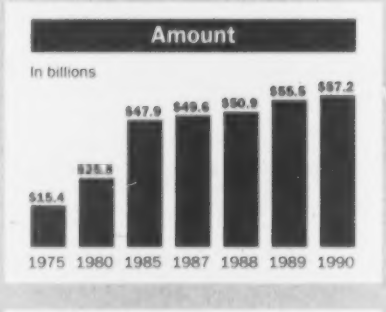
The organization coordinates the efforts of state athletic and activities associations.

The IRS said the association owed taxes on the share of advertising revenue it received from a sports magazine, even though it had a contract with a publisher who created, published, and distributed the journal, and solicited the advertising.

The ads did not further the charity's educational purposes, the IRS said, and the revenues were not exempt from tax as royalties.

In keeping with its policy on disclosure, the revenue service did not reveal the names of the charities in either case.

Charitable Deductions Claimed on Tax Returns



Note: In 1987, taxpayers who do not itemize their deductions lost the right to deduct charitable contributions.

SOURCE: Internal Revenue Service

CHRONICLE CHART BY JOJO GRAGASIN

Number of Write-Offs for Gifts Continues to Dip, IRS Reports

STATISTICS released by the IRS show a continuing decline in the percentage of individual federal tax returns that included deductions for charitable contributions from 1975 to 1990.

In the same period, the deductions that were claimed for contributions increased from $15.4-billion to $57.2-billion.

The average contribution claimed on each return has continued to increase, climbing from $625 in 1975 to $1,954 in 1990.

The data are in the *Statistics of Income Bulletin* for spring 1992. The report may be obtained for $7.50 a copy from the Government Printing Office, Superintendent of Documents, Washington 20402-9325.

—GRANT WILLIAMS

WATCHDOG WATCH

Following are summaries of recent reports by the National Charities Information Bureau.

This private organization reports on whether charities meet standards for fund raising, governance, financial management, and public information. The organization does not approve or disapprove charities, and urges potential donors to evaluate the importance of variations from the standards. It also notes that charities' practices may change at any time.

For organizations that do not meet the standards, information is given only on those standards that are not met. Those organizations meet all the other standards.

Copies of the full reports are available from the National Charities Information Bureau, 19 Union Square West, New York 10003.

NATIONAL CHARITIES INFORMATION BUREAU

Cedars Home for Children Foundation and The Cedars, 6601 Pioneers Boulevard, Lincoln, Neb. 68506. Does not meet the following standards: (1) that an organization's board have an individual attendance policy; (2) that the board have no more than one paid staff member, usually the chief staff officer, who shall not chair the board or serve as treasurer; (3) that an organization have policy guidelines to avoid material conflicts of interest involving board or staff members; (4) that the board have a policy promoting pluralism and diversity within the organization's board, staff, and constituencies; (5) that promotion, fund raising, and public information describe accurately the organization's identity, purpose, programs, and financial needs; (6) that an organization have net assets available for the following fiscal year not usually more than twice the current year's expenses or the next year's budget, whichever is higher; and (7) that the annual report include full audited financial statements or indicate that they are available on request. Because its annual report discusses programs in general terms not directly related to the expenses incurred, it is not clear whether the organization meets the standard calling for an explicit narrative description of major activities, presented in the same major categories and covering the same fiscal period as the audited financial statements. The organization's fund-raising expenses, 32 per cent of related support, raise a question with regard to the standard that such expenses, in relation to results, be reasonable over time.

Deafness Research Foundation, Nine East 38th Street, Seventh Floor, New York 10016. Meets all standards.

National Conference of Christians and Jews, 71 Fifth Avenue, Suite 1100, New York 10003. Meets all standards.

National Parks and Conservation Association, 1776 Massachusetts Avenue, N.W., Suite 200, Washington 20036. Meets all standards.

FEDERAL REGULATIONS

WASHINGTON

The Treasury Department has published a list of rules that it plans to propose or complete in the months ahead.

Such rules are published twice a year as part of the government's effort to inform people about forthcoming regulations that might affect their activities. The most recent list appeared in the April 27 issue of the *Federal Register*.

Following are summaries of regulations and proposals that affect foundations and other non-profits:

Charitable annuities and unitrusts. Proposed rules would provide additional guidance on the tax treatment of guaranteed annuities and earnings from charitable unitrusts. Expected timing: No date set. Contact: Laura Howell, (202) 566-9312.

Charitable deductions. Final rules would explain what information taxpayers need to provide to the Internal Revenue Service if they want to take deductions for charitable donations of goods or real estate worth more than $5,000. Expected timing: No date set. Contact: Stuart Spielman, (202) 566-3980.

Corporate contributions. Final rules would explain how multinational companies are to apportion their charitable contributions between their domestic income and their foreign income. Expected timing: December. Contact: Carl M. Cooper, (202) 566-6795.

Excise taxes. Proposed rules would amend existing rules to reflect changes that the Tax Reform Act of 1984 made in requirements related to excise taxes paid by private foundations. Expected timing: No date set. Contact: Jerome P. Walsh Skelly, (202) 566-3505.

Reporting requirements. Proposed rules would simplify the process for tax-exempt organizations that want to change the dates of their annual accounting periods. Expected timing: No date set. Contact: Linda Conway, (202) 566-3251.

Unrelated-business income tax. Proposed rules would explain whether property acquired by a qualified trust is subject to the unrelated-business income tax. Expected timing: No date set. Contact: Monice Rosenbaum, (202) 566-3505.

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OPINION

Commentary and Letters

After the Riots in Los Angeles: What Philanthropy Should Do

By DAVID JOHNSTON

IN THE TERRIFYING TELEVISED COVERAGE of the riots in Los Angeles two images stood out, images that the non-profit world would do well to ponder.

The first was when two Los Angeles Police Department patrol cars came upon a pair of motorists being dragged from a car and beaten. The police hit the gas and drove away, an act of cowardice that violated their oath and reinforced the image in South-Central Los Angeles of the police department as an occupying army, just another heartless gang. Imagine how you would have felt to see the police abandon you to the gentle mercies of the mob.

The other image was of the looters and the rainbow of colors in which they came: white, black, brown, and yellow. This was not a race riot but a class riot, a reflection of how racial discrimination has given way to the more subtle, and dangerous, policies that discriminate against the poor, taking away the tools they need to share in the American Dream.

As Jack Kemp, the U.S. Secretary of Housing and Urban Development, has pointed out, the common thread among the looters was hopelessness.

An abundant society in which tens of millions of people lack hope and tens of thousands revel in even the temporary collapse of social order is a society on its way to the dustbin of history. If we continue to pursue our current policies of de-industrialization, maintaining a global war machine, and rewriting the government rule book to enrich the very few at the expense of everyone else, more class riots are sure to follow. Our leaders—and the news media with their increasing focus on "glitz mongering"—make solutions to our urban problems seem beyond our grasp. Our President, our news anchors, and we ourselves speak of the intractable problems of the underclass as if our democratic society is incapable of creating life, liberty, and the pursuit of happiness in abundance. In so doing we dishonor ourselves and the millennia of struggle from which emerged the Enlightenment and our Constitution.

MY VIEW

Treating the riots as this year's hot topic is to waste donors' money, time, and lives. Human capital takes years to develop, as any of the engineers who worked on Apollo can tell you.

If for no better reason than selfish interest, we must reduce poverty and hopelessness with the same commitment we used to win the cold war.

Multitudes of Americans are growing up with no tools and no hope, destined to become "tax eaters" instead of tax payers. In the 1980's, children attending the public schools in South-Central Los Angeles read science texts that spoke of a future in which man would walk on the moon, while not 10 miles away some of the engineers who put Neil Armstrong on lunar soil started applying for Social Security.

Since the late 70's we have treated the poor with growing contempt, taking away tools needed to escape poverty. What we do offer the poor in abundance is television, a free university of crime that has taught everyone the litany of Miranda and that our highest values are cosmetic beauty, duplicity, and use of violence to solve problems. It is a message rejected by many, including the vast majority in South-Central who stayed home and the brave few who rescued beating victims abandoned by the po-

LETTERS

Give Money to Raise Money in the Workplace, Too

TO THE EDITOR:

As executive director of an organization whose purpose is to strengthen regional, state, and local non-profit groups working on environmental issues, I was gratified to see Holly Hall's article, "Giving Money to Raise Money," in the April 21 issue. Investments by foundations and other funders in improving the fund-raising and other organizational capacities of non-profit groups are essential if those funders want to achieve their substantive goals.

However, I was very disappointed that the article did not discuss foundation support for a method of fund raising which your publication otherwise covers quite thoroughly: workplace solicitation. The formation of federations and funds to expand the financial base of non-profit groups not part of the United Way systems was proved to be profitable through the 80's. Well over $200-million per year is now being raised in the workplace market by national, state, and locally based funds—a tenfold growth rate in the last decade, according to the National Committee for Responsive Philanthropy.

One of the reasons for growth is that the introduction of competition into that market has increased the total amount raised for all charities. But growth would be even more rapid if foundations and other funders gave adequate support to new federations and funds in their initial stages.

This is a concern for the Environmental Support Center because one of our major programs involves encouraging the use of workplace solicitation as a new fund-raising tool by regional, state, and local environmental organizations. Since we began working on it at the end of 1990, the number of state and regional environmental federations established to raise money in the workplace has increased from the three Pacific Coast funds existing at that time to nine federations, with new ones in the Midwest, Northeast, and South. Several others are likely to come into existence later this year.

These new environmental federations and the new social-action funds, Black United Funds, Hispanic funds, women's federations, and others being established around the country are not receiving the level of support they should be getting from foundations and other funders. These new enterprises are non-profit equivalents of entrepreneurial small businesses—good ideas which will succeed in the long run but will be more likely to prosper and bring significant benefits to their non-profit constituents in the short run if they are adequately capitalized.

They have the potential to reduce the burden on foundations and other institutional funders through increasing support from the largest segment of philanthropy—individual giving. They also exhibit another characteristic which funders should support—collaboration among fund-raising competitors. As workplace fund raising is not very useful for most groups who participate in it as individual organizations, those who want to take full advantage of it must work together. This often leads to other types of collaboration,